

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF determining
whether there has been a violation of the
Securities Act of Washington by:

ARNOLD ARMS CO., INC. and DOUGLAS E.
ARNOLD
Respondents

SDO - 046 - 01

STATEMENT OF CHARGES AND
NOTICE OF INTENTION TO ENTER
ORDER TO CEASE AND DESIST

Case No. 01-03-117

THE STATE OF WASHINGTON TO: DOUGLAS E. ARNOLD

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, ARNOLD ARMS CO., INC. and DOUGLAS E. ARNOLD, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 to cease and desist from such violations. The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

I.

RESPONDENTS

1. ARNOLD ARMS CO., INC. ("Arnold Arms") is a Washington corporation with its principal place of business at 19007 61st Avenue NE, Suite 1, Arlington, Washington 98223.
2. DOUGLAS E. ARNOLD is president of Arnold Arms.

II.

PUBLIC OFFERING OF CONVERTIBLE DEBENTURES

During March 2001, Arnold Arms took out a newspaper advertisement that was published in *The Seattle Times*. The advertisement announced that Arnold Arms had initiated a limited private convertible debenture offering pursuant to Rule 504, Regulation D in order "to raise \$500,000 to be used for increased production to support market demand." The advertisement also touted the company's guns and ammunition and said that the company intended to file for an IPO late

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1 next year. The company also published information from the newspaper advertisement on its Internet website at
2 www.arnoldarms.com.

3 III.

4 UNREGISTERED SECURITIES

5 Arnold Arms Co., Inc. is not currently registered to sell its securities in the state of Washington and has not
6 previously been so registered.

7 V.

8 UNREGISTERED SECURITIES BROKER-DEALER OR SALESPERSON

9 Douglas E. Arnold is not now and never has been registered as a securities broker-dealer or salesperson in the
10 state of Washington.

11 Based upon the above Tentative Findings of Fact, the following Conclusions of Law are made:

12 CONCLUSIONS OF LAW

13 I.

14 The offer of convertible debentures described in paragraph II of the Tentative Findings of Fact constitutes the
15 offer of a security, as defined in RCW 21.20.005(10) and (12), whether in the form of a debenture, right to purchase stock
16 or investment contract.

17 II.

18 The offer of said securities is in violation of RCW 21.20.140 because no registration for the securities offering
19 described in paragraph II of the Tentative Findings of Fact is on file with the Washington Securities Administrator and
20 because the offering does not qualify for an exemption from registration pursuant to WAC 460-44A-504.

21 III.

22 Douglas E. Arnold violated RCW 21.20.040 by offering the securities described in paragraph II of the Tentative
23 Findings of Fact while not being registered as a securities broker-dealer or salesperson in the state of Washington.

24 STATEMENT OF CHARGES AND NOTICE 2
25 OF INTENTION TO ENTER ORDER TO
26 CEASE AND DESIST

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1 **NOTICE OF INTENTION TO ORDER RESPONDENTS TO CEASE AND DESIST**

2 Based upon the above Tentative Findings of Fact and Conclusions of Law, the Securities Administrator intends to
3 order the respondents to each permanently cease and desist from violating the registration provisions of the Securities Act
4 of Washington.

5 **AUTHORITY AND PROCEDURE**

6 This STATEMENT OF CHARGES AND NOTICE OF INTENTION TO ENTER ORDER TO CEASE AND
7 DESIST is entered pursuant to the provisions of RCW 21.20.390 and is subject to the provisions of ch. 34.05 RCW. The
8 respondents, Arnold Arms Co., Inc. and Douglas E. Arnold, may each make a written request for a hearing as set forth in
9 the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this order. If a
10 respondent fails to request a hearing within the allowed time, the Securities Administrator intends to adopt the above
11 Tentative Findings of Fact and Conclusions of Law as final and to enter a permanent cease and desist order against that
12 respondent.

13 DATED this ____ day of _____, 2001.

14
15 _____
16 JOHN L. BLEY
17 Director, Department of Financial Institutions

18 Approved by:

18 Presented by:

19
20 _____
21 Michael E. Stevenson
22 Chief of Enforcement

20 _____
21 Janet So
22 Securities Examiner

23
24 STATEMENT OF CHARGES AND NOTICE 3
25 OF INTENTION TO ENTER ORDER TO
26 CEASE AND DESIST

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